ANNUAL REPORT 2002

TEACHERS' RETIREMENT ALLOWANCES FUND

OUR MISSION

We commit ourselves to administer the teachers' pension plan in a caring manner and manage its assets prudently to ensure that our members receive the benefits they have been promised and the information needed to make educated retirement decisions.

103-06393/

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2002

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COMMITMENT • CONFIDENCE • SECURITY

2002

PROFILE

The Manitoba Government created the Teachers' Retirement Allowances Fund (TRAF) in 1925 as the result of a successfully led and long-fought campaign by teachers for their own pension plan. Over 75 years later, and with 8,606 retirees and over 14,374 active members, retirement security remains as vital as ever.

THE BOARD OF DIRECTORS

The TRAF Board administers The Teachers' Pensions Act and acts as trustee of the Fund. The Board employs thePresident/ CEO and staff to fulfill its responsibilities as outlined in the Act.

Representatives from The Manitoba Teachers' Society, the Manitoba Association of School Trustees and the general public make up the Board of Directors. Its members are appointed by the Lieutenant Governor in Council for two year terms. At the end of their terms they are either reappointed or a successor is found.

The role of the Board is to administer the Act and to ensure that beneficiaries of the plan are being treated appropriately. The members of the Board strive to improve operations and to administer its responsibilities in the most efficient and effective way possible.

INVESTMENT COMMITTEE

The Investment Committee directs the Fund's investment activities. Members of the committee are the Chair of the Board, a member of the Board who represents teachers and the Deputy Minister of Finance. Over the past decade, a second teacher member has been named as an observer of the Investment Committee to provide greater teacher involvement in investment management discussions. Since 1999 the entire Board has been invited to attend meetings of the Investment Committee and participate in discussion, though decision making is the responsibility of the statutory members of the committee.

THE FUND

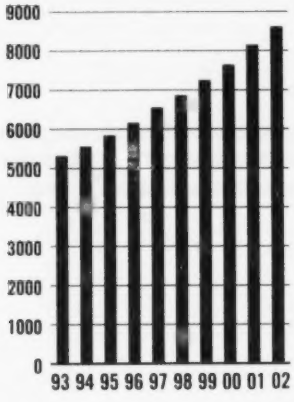
TRAF manages the employee portion of the pension plan for Manitoba's public school teachers. The employer portion of teachers' pensions is not funded; the Province of Manitoba contributes its share on a "pay as you go" basis.

On December 31, 2002, the Fund had net assets of $1,834 million invested in a diversified portfolio of equities and fixed income securities.

TRAF has 14,374 active teacher members, 8,606 pensioners and approximately 6,500 former teachers with benefit entitlements.

NUMBER OF PENSIONS IN PAY

December 31, 2002



MEMBERSHIP PROFILE

December 31, 2002

Former Teachers	6,500
Retired Teachers	8,606
Active Teachers	14,374

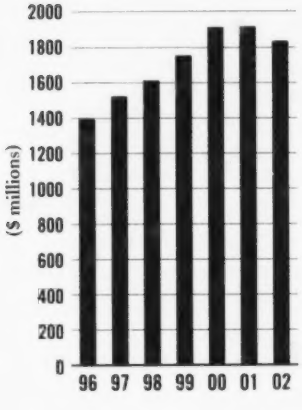
ASSET MIX

December 31, 2002

Fixed Income Investments	42.6%
Equity Investments	57.4%

NET ASSETS AVAILABLE FOR BENEFITS

December 31, 2002

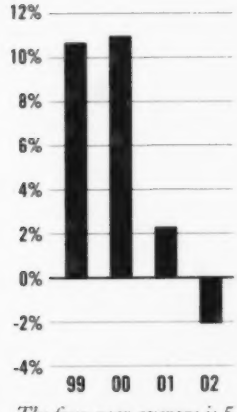


INCREASE IN NET ASSETS AVAILABLE FOR BENEFITS

($ millions)		2002	2001
Net assets available for benefits, start of year		$ 1,918	$ 1,914
Add:	Teacher contributions	53	48
	Province's share of pensions	89	84
	Investment return	(44)	41
Deduct:	Pension payments	(169)	(157)
	Other payments	(10)	(9)
	Administration	(3)	(3)
Net assets available for benefits, end of year		$ 1,834	$ 1,918

INVESTMENT RETURN

December 31, 2002



The four-year average is 5.3%

INVESTMENT RETURN (%)

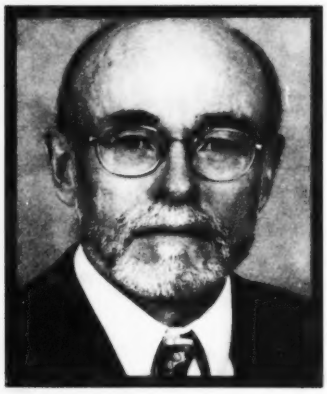
($ millions)	2002	2001
Annual	-2.1	2.3
Composite benchmark	-4.7	-1.8
Four-year average	5.3	7.9
Four-year benchmark	3.5	7.3
Actuarial requirement	7.0	7.0

MESSAGE FROM THE CHAIR OF THE BOARD

Last year at this time I had only recently assumed my position as Chair of the TRAF Board. My initial impression of both the Board and senior staff at TRAF was that they were a very capable and efficient group. Now that I've spent over a year in this position, I am pleased to report that my initial assessment has proven to hold true.

Each year, the Board confronts a number of challenging issues and we do so while trying to maintain the spirit of the Teachers' Pensions Act and the fairness of its provisions. Whether discussing investment strategy or details relative to individual pensions, we successfully move issues forward through debate, consideration and analysis of factual material.

One of the most significant areas of responsibility for the TRAF Board is in the area of investment strategy. The Board and the Investment Committee are assisted by background information and advice from TRAF's President/CEO and a variety of investment professionals.



To further focus deliberations, the Investment Committee and Board arranged for a professional advisor to conduct an asset liability modeling study in 2002. Possibly the most significant decision made in response to this study, was to diversify some of TRAF's financial holdings into several complementary private equity funds. It is anticipated that private equity investments will enhance our investment performance without significant additional risk.

In 2002, the Board decided to invest in the future of Manitoba by becoming a founding partner of the Frontier Capital Fund, along with the Workers Compensation Board and the Civil Service Superannuation Board. The Frontier Capital Fund will provide operating capital for small and medium size Manitoba companies.

This was another year where TRAF was notified of a change in the composition of its Board. At the close of 2002, Doug McGiffin, a MAST representative indicated that he will be leaving the Board. We would like to thank him for his thoroughness, practicality, knowledge of labour relations and thoughtful remarks. Doug will be replaced by Ramona Gallos, whom we would like to welcome to our deliberations.

Although markets are not displaying the rate of return we have become accustomed to over the last decade, we are pleased that we remain in the top quartile of comparable funds. Our primary investment manager, Greystone Managed Investments Inc., has done an excellent job with the bulk of our "balanced" portfolio. With Greystone's assistance, we have accelerated our involvement in certain asset classes, primarily real estate, where risks and returns are particularly suitable at a time when other capital markets have shown weakness.

As Chair of the TRAF Board, I am particularly interested that TRAF search out socially

TRAF BOARD MEMBERS: (L-R): Doug McGiffin, Alfred Black, Chair (front), Bruce Chegus, Glen Anderson, Bob Malazdrewich, Pat Isaak, Vice-Chair (front), Henry Shyka

responsible investments where possible and where returns are appropriate relative to risk. The same applies to determining further investments which may be made in Manitoba, whether in real estate, venture capital or otherwise. As with any investment, it is important that we are diligent when pursuing our goal to secure the highest investment return on the funds in the pension plan.

In 2002, TRAF's Pension Adjustment Account was able to support the first full cost of living adjustment since 1998. While this is positive news, it was only a 0.7% increase. Unfortunately, 2003 is not likely to demonstrate the same competency. Though the answer to this particular issue does not lie in the hands of the TRAF Board, it is certainly troubling to oversee a pension plan which cannot ensure that its stakeholders' pension value is maintained.

The deliberations at the Board level are often guided by advice and materials supplied by the Chief Executive Officer and Vice Presidents. I am pleased to report that this material is of uniformly high quality; it is delivered in a timely fashion and allows for and encourages debate.

TRAF is most fortunate to employ a strong management team. Tom Ulrich is a highly qualified and experienced President & Chief Executive Officer with a long record of serving the teachers of Manitoba. He works with the Vice Presidents of TRAF who are diverse in background, experienced in outlook, take pride in their jobs and function very well together as a team. Together, they oversee services to over 29,000 members including active, retired and those with deferred pension credits. Backed by a talented, knowledgeable staff, they are constantly looking for ways to improve services to our members and do so in an efficient manner.

As we look ahead to 2003, we are anxious to greet the challenges and opportunities that it will be sure to present. As we have done unfailingly in 2002, we will meet each one of these available opportunities with a focus on the competency of the plan and on the best interests of you, our member.

Alfred Black, Chair

MESSAGE FROM THE PRESIDENT & CEO

The year 2002 forced pension plans and other investors to face a new economic reality. Having benefited from many years of generally positive investment returns, we are now presented with worldwide equity markets that have been negative for two consecutive years. While economic projections suggest positive equity returns for the next decade, they are still not promising the regular double digit returns of the 1990s. When examining the debt market, the picture for the future is even less encouraging. With interest rates at historically low levels, there appears to be little opportunity for high returns from investments in the bond market. These factors affect not only pension plans but also individuals planning for retirement.

When measuring TRAF's investment performance at the end of 2002, we are relatively pleased with how we came through this difficult year. As noted in our financial highlights, we exceeded our total fund benchmark return by 2.6%, as well as exceeding our benchmark return in most individual asset classes. However, the overall rate of return is negative and that does affect the financial status of the Fund.

TRAF is required to perform the next valuation of the Fund at January 1, 2004 and all indications at this time point to the disclosure of an unfunded liability resulting from that valuation.

All pension plans have been affected by the market conditions of the past two years. While TRAF's investment performance has been well above benchmark during this period and has performed much better than the average pension fund, the under-performance in relation to our actuarial requirement does have long-term consequences. As a result, TRAF continues to explore alternative investment strategies that will reduce the volatility of our investment performance and enhance the overall long-term return.

During 2003 the TRAF Investment Committee and Board agreed to increase our exposure to real estate investments and private equity. Real estate has been our best performing asset class over the past decade and promises both long-term stability in providing a reliable income stream to TRAF and a tendency to perform well in difficult markets. Private equity has the potential to enhance our investment performance and to behave with a low correlation to the public equity markets.

The decision to pursue changes to our investment strategy arose out of the Asset Liability Modelling Study conducted in early 2002. The results of the study helped us to understand the relational behaviour among various assets in our current mix and to evaluate

how the addition of other assets or investment strategies might assist us in managing investment risk. It also reinforced the reality that pension liabilities are long-term in nature and our asset management strategy needs to maintain that same focus.

The effects of market conditions have been noted not only on our investment performance, but also on our retirement incidence. In 2002, we had expected to see the highest number of retirements yet, as a large percentage of teachers reached age 55. Instead, TRAF actually saw a notable decrease in the number of retirements. While the exact reason for this decrease has not been officially determined, we do know this experience is not unique to teachers.

The decision to retire is usually dependent on an individual's confidence in future financial security. We can safely assume that the substantial reductions in asset values of individual RRSPs are compromising that confidence in some cases. For Manitoba teachers, we believe lack of confidence in the ability of the Pension Adjustment Account to pay reasonable cost of living adjustments is also a factor.

Surprisingly, the decrease in retirements has not translated to a decrease in requests for information or pension estimates. We saw an increase in the demand in many areas of our service. People feeling less than fully secure about the decision to retire tend to seek more information about their individual pension file.

The year 2002 has been especially demanding for TRAF staff. The decision to implement a new Teacher Reporting System in late 2001 meant the conversion of TRAF's teacher record system and training of school division payroll personnel. Throughout the year, work also continued on the Data Review Project to assure that each teacher's record accurately reflects salary and service data. We anticipate completing the Data Review Project in 2003.

Getting to that point has been a great challenge for TRAF as almost every collective agreement was renewed during 2002, most with retroactive pay provisions going back two years. This created an additional workload that required massive amounts of staff time and attention. Despite best efforts to minimize delays, we are aware that there have been times when our response time to member requests has been less than desirable. We appreciate your patience during these challenging times.

TRAF is blessed with a competent staff that is dedicated to meeting the needs of its members. That does not mean that we can't make improvements. As you read this report there may be questions that arise or comments you would like to make. We always value hearing from you, as it is only through your feedback that we can attempt to address your needs. The statement of commitment outlined in our mission to put the interests of our members foremost in the work we do is always at the forefront of our planning and operations. As we look forward to the new challenges of 2003 we assure you that we are steadfast in that commitment.

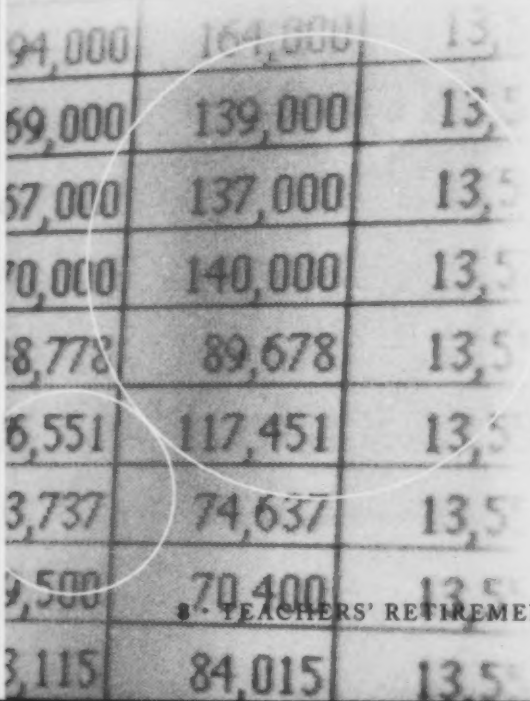
Tom Ulrich
President and CEO

INVESTMENT PERFORMANCE

INVESTMENT OBJECTIVES

The investment objectives for the Fund's performance over the long-term are:

- to exceed the aggregate returns achieved by the Fund's indexed-based benchmark asset mix portfolio by .5%;
- to exceed the median fund performance results achieved in a universe of comparable balanced funds as calculated by an independent provider of performance measurement services;
- to achieve a 4% rate of return above inflation.



INVESTMENT PERFORMANCE

During 2002, we saw a continuation of the investment management challenges encountered in 2001. Although the markets rebounded slightly at the close of 2001, it did not last. We experienced a significant downturn through most of 2002. Even though there was a modest recovery in the fourth quarter, it was not sufficient to provide a positive total year return. The past two years have presented us with the worst market environment of the past quarter century. We are pleased to report that we have come through them with a slight overall positive return. This was achieved by very few pension funds.

As demonstrated by our investment record, TRAF's performance on a comparative basis is excellent. We enjoyed first quartile performance on a total fund basis, and in Canadian equities, mortgages and real estate. Our Canadian bond performance was above median and US equities were only slightly below median.

Concerns remain over our performance in Non-North American equities which led us to change one of our managers during the course of the year. It is too early to fully evaluate that decision but we are pleased to note a substantial performance improvement in this portfolio during the fourth quarter.

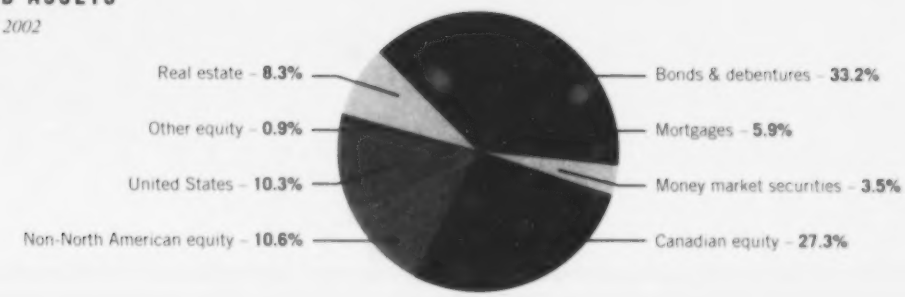
It is of interest to note just how difficult market conditions were in 2002. At year end no major market index in the world had a positive return for the year. The TSX was down 12.4% for the year, the S&P 500 was down 22.7% and the MSCI EAFE Index dropped by 16.6%.

Fortunately, the bond, mortgage and real estate portfolios performed well in 2002. While their total return was not enough to provide a positive result for the total fund, each performed well on both an absolute and a comparative basis.

2002

INVESTED ASSETS

December 31, 2002


Real estate – 8.3%
Other equity – 0.9%
United States – 10.3%
Non-North American equity – 10.6%
Bonds & debentures – 33.2%
Mortgages – 5.9%
Money market securities – 3.5%
Canadian equity – 27.3%

A LOOK FORWARD

Despite our positive comparative performance, as measured against both benchmarks and the universe of other funds, we did not achieve our actuarial requirement of a 4% return above inflation in 2002. While these are long-term performance standards, we have now fallen below our actuarial requirement when measured over the three year period used to value the Fund. With our next valuation required effective January 1, 2004 we are concerned about the potential impact of these market conditions on the overall financial status of the Fund.

Economic forecasters have suggested that expected rates of return over the next decade will not be comparable to those we became used to during the 90's. While we still hope to achieve our actuarial requirement, the developing surpluses that resulted from the significant excess returns of the past are unlikely to be experienced in the foreseeable future from the public markets. This has convinced the TRAF Investment Committee and Board to continue searching for alternative sources of additional investment return. During 2002 they approved commitments of $90 million to private equity and debt funds and authorized the search for a U.S. small-mid cap equity manager. These adjustments to our investment strategy are designed to enhance our investment performance while reducing our overall level of risk. TRAF will continue to explore various opportunities that might assist in meeting our long-term investment goals.

INVESTMENTS	Fair Value Dec. 31, 2002 ($ millions)	2002 Return (%)	Benchmark Return (%)	Towers Perrin Median Return (%)
FIXED INCOME				
Bonds and debentures	$ 630	8.9	8.7	8.8
Mortgages	111	9.9	5.7	7.6
Money market securities	67	2.5	2.5	n/a
EQUITIES				
Canadian	518	-6.7	-12.4	-11.1
Non-North American	201	-19.1	-16.6	-16.9
United States	195	-22.4	-22.7	-22.1
Other	17	59.7	-12.4	-11.1
Real estate	157	11.8	6.8	7.7
TOTAL	$ 1,896	-2.1	-4.7	-4.3

INVESTMENT PERFORMANCE

INVESTMENT OBJECTIVES

The investment objectives for the Fund's performance over the long-term are:

- to exceed the aggregate returns achieved by the Fund's indexed-based benchmark asset mix portfolio by .5%;
- to exceed the median fund performance results achieved in a universe of comparable balanced funds as calculated by an independent provider of performance measurement services;
- to achieve a 4% rate of return above inflation.

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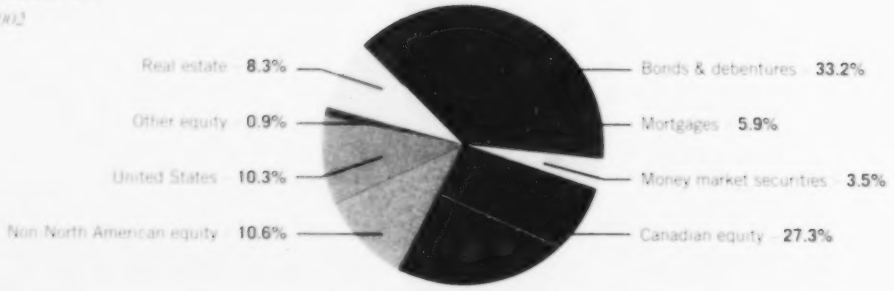

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THE YEAR IN REVIEW

PENSION ADJUSTMENT ACCOUNT (PAA)

In July 2002, the PAA was able to pay a 0.7% cost of living adjustment (COLA). This increase equalled the full change in the Consumer Price Index (CPI) for Canada, December 2001 over December 2000. This was the first year since 1998 that the PAA had sufficient funds to pay a full COLA, but only because the CPI change was so small. CPI for 2002 was 3.88%, and it is expected that the PAA will be able to pay only a part of that in the way of a COLA increase. The PAA will not be able to pay reasonable cost of living adjustments in the future unless the legislation surrounding the Account is changed. This issue has been under discussion between The Manitoba Teachers Society and the government for several years.

DATA REVIEW

Our Data Review project continued to progress with 68% of the active member files reviewed as of December 31, 2002. This project began in 2000 and involves auditing the historical salary, service and contribution data reported by the school divisions for all active members. By verifying that data is correct, TRAF ensures that benefit information, including pension estimates and benefit statements, is more precise and ultimately that final pension benefits are paid appropriately.

TEACHER REPORTING SYSTEM

In 2001, TRAF implemented a new reporting system for school divisions making the reporting of salary, service and contribution data more accurate and efficient. The new system incorporates the concepts of contractual salary and the number of work days in a standard work year. School divisions are now able to edit data online and report to TRAF via a secure internet business to business connection. A great part of 2002 was spent training and assisting the school division payroll staff in the use of the new online edit programs.

RECIPROCAL TRANSFER AGREEMENT

While British Columbia did not initially join the reciprocal pension transfer agreement, we were advised late in 2001 of BC's decision to enter the agreement effective January 1, 2002. As TRAF began to value the pension transfer amounts available for former Manitoba teachers who were now members of the BC Teachers' Pension Plan, it became obvious that the application of current economic assumptions to periods of service that may date as far back to the 60's did not provide a fair value for that service. In order to deal with these former Manitoba teachers fairly, it was decided to value their service in a manner similar to what has been used in the past with Ontario and Saskatchewan. This provision of enhanced transfer values will only be available during a window ending at December 31, 2005.

TRAF MANAGEMENT TEAM: (Back row): Dewar McKinnon – Vice President, Finance & Operations; Kristi Baily – Associate Vice President, Communications; Les Brown – Vice President, Information Services; (Front row): Brenda Venuto – Vice President, Benefits Administration & Member Services; Tom Ulrich – President & Chief Executive Officer

ACTUARIAL VALUATIONS

Subsection 45(4) of The Teachers' Pensions Act requires that an actuarial valuation be conducted at least once every three years. The most recent actuarial valuation was completed on January 1, 2001 by Aon Consulting Inc., the actuary for the Fund. The stated objectives were to determine:

a. actuarial estimates of the funding position (financial status) of the assets and liabilities under Accounts A & B on a going concern basis;

b. the solvency position of the assets and liabilities under Account A as of January 1, 2001;

c. actuarial estimates of the funding adequacy of member contributions under Account A for new entrants to the Fund.

Account A represents the pre-funded teacher-financed portion of the Fund, and is responsible for the payment of roughly one-half of the basic pensions paid to retired teachers. Account B represents the unfunded government-financed portion of the Fund and is responsible for the payment of roughly one-half of the basic pensions plus cost of living adjustments paid to retired teachers. Account B is financed by the Province as benefit payments are made.

The January 1, 2001 valuation disclosed a surplus in Account A of $102.9 million. This compares to a surplus of $43.9 million disclosed at January 1, 1998. The surplus increase is the net effect of experience gains and changes in assumptions. The most significant experience gain was from investment earnings exceeding the 7.0% return assumed in the 1998 valuation. This gain was partially offset by a revision in the mortality assumption because experience suggests teachers are living longer than previously assumed.

For the first time this valuation included the Account B liabilities and assets. The total liabilities of Account B were determined to be $2,099.9 million as at January 1, 2001. For valuation purposes, Account B assets are deemed to be equal to the Account B liabilities, since the government has a legislated promise to pay its share of future pensions.

The actuary also determined that there is no solvency deficiency in the Fund, and based on the assumptions used, a typical new entrant's contribution is not expected to fully fund the Account A 50% portion of the benefits that are to be funded by member contributions.

The next actuarial valuation will be performed as at January 1, 2004. Since the Fund's investment performance has been well below the actuarial requirement since the last valuation, it is very likely that Account A will be in a deficit position at that time.

PENSION ADJUSTMENT ACCOUNT (PAA)

An actuarial valuation of the PAA is completed annually to determine what cost of living adjustment can be paid. Annual cost of living adjustments are the lesser of the prior year change (December over December) in the Consumer Price Index (CPI) for Canada; or the amount determined by the actuary that the PAA can support.

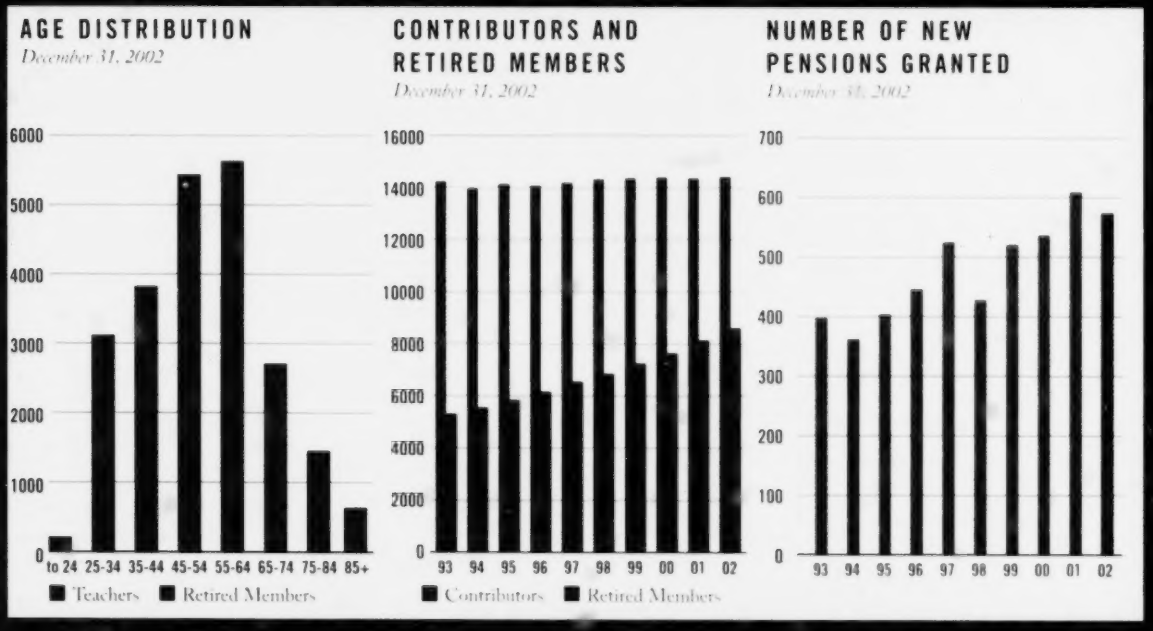
The valuation on December 31, 2001 showed a surplus of $9,993,375 prior to the granting of a cost of living increase for 2002. This enabled TRAF to grant a cost of living increase of 0.7% effective July 1, 2002, which was equal to the increase of the CPI (Canada) for 2001. An actuarial surplus of $3,516,290 remains in the account toward funding future cost of living increases.

PENSIONS

As of December 31, 2002, pension payments were being made to 8,606 former teachers and their beneficiaries. This represents a net increase of 451 from the prior year. Following is a summary analysis of the number and types of pensions being paid:

PENSIONS IN PAY

	2002	2001
Regular service pensions		
Male	3,483	3,276
Female	4,239	4,022
Survivors/beneficiaries of deceased retired members		
Male	45	41
Female	337	320
Pre-retirement death benefits	107	105
Other benefits including annuities	395	391
Total recipients	8,606	8,155



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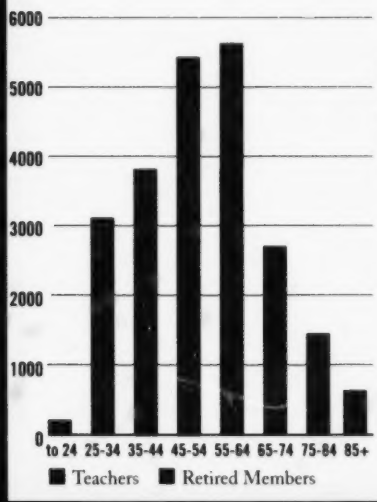
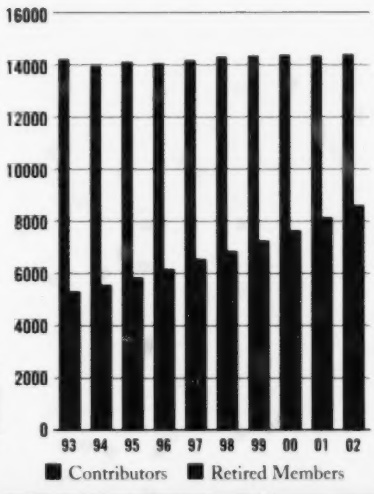
AGE DISTRIBUTION

December 31, 2002



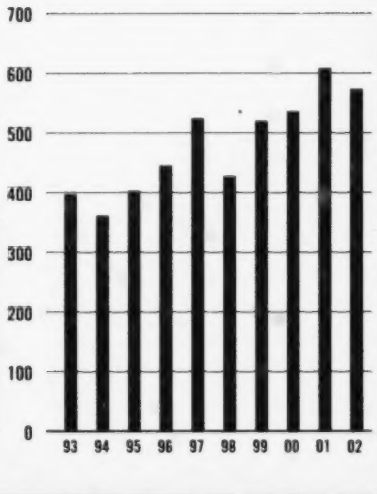
CONTRIBUTORS AND RETIRED MEMBERS

December 31, 2002



NUMBER OF NEW PENSIONS GRANTED

December 31, 2002



MEMBER SERVICES

Whether managing the assets of the fund; directing investments; conducting seminars or personal appointments; responding to information requests and distributing information; or providing monthly pension payments; serving our membership is the primary focus of our efforts.

During 2002, we maintained service, salary and contribution records for 14,374 active teachers, 6,500 former teachers, and ensured that our 8,606 retired members and their beneficiaries received their benefit entitlements.

Meeting service demands continues to be a priority as we see a growing number of teachers approaching and entering retirement. All projections pointed to 2002 being the peak year for retirements as the leading edge of "baby boomers" reached age 55. TRAF actually experienced a decrease of 6% in the number of retirements compared to the previous year.

We believe that many members deferred retirement partly due to the lack of confidence in the current investment market. Although the number of actual retirements was less than expected, members continued to request pension estimates and other benefit information.

GENERAL INFORMATION REQUESTS

	2002	2001
Estimate Calculations	6,254	6,094
Number of Appointments	1,221	1,172
Number of Seminars		
Winnipeg	20	22
Rural	15	17

NEW RETIREMENTS

	2002		2001	
	Male	Female	Male	Female
# of Retirements (active only)	198	234	245	226
Average Age	57.49	56.92	57.17	57.24
Average Pensionable Service (yrs)	31.07	25.33	31.26	26.70
Average Monthly Pension	$2,438	$1,790	$2,289	$1,815

TRAF

TEACHERS' RETIREMENT ALLOWANCES FUND

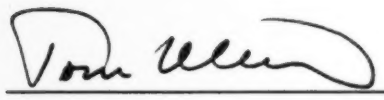
MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The Financial Statements of the Teachers' Retirement Allowances Fund have been prepared by management, which is responsible for the integrity and fairness of the data presented, including amounts based on informed estimates and assumptions. The Financial Statements have been prepared in accordance with Canadian generally accepted accounting principles. Financial and operating data elsewhere in the Annual Report are consistent with the Financial Statements.

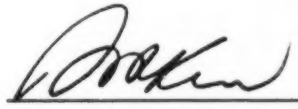
In discharging its responsibility for the integrity and fairness of the financial statements, management maintains the internal controls necessary to provide reasonable assurance that relevant and reliable information is produced and that assets are properly safeguarded.

The firm of Aon Consulting Inc. has been appointed the independent consulting actuary to the Fund. The role of the actuary is to complete an actuarial valuation of the Fund in accordance with accepted actuarial practice; the results of the valuation are included in the financial statements.

Ultimate responsibility for the Financial Statements rests with the Board, assisted in its responsibilities by the management and staff. The Fund's external auditor, Office of the Auditor General, has conducted an independent examination of the Financial Statements in accordance with Canadian generally accepted auditing standards, performing such tests and other procedures as considered necessary to express the opinion in the auditor's report. The Office of the Auditor General has full and unrestricted access to the Board to discuss the audit and related findings as to the integrity of the Fund's financial reporting and the adequacy of internal control systems.



Tom Ulrich
President & Chief Executive Officer



Dewar McKinnon, CGA
Vice President, Finance & Operations

February 19, 2003

Office of the Auditor General

500 - 330 Portage Avenue
Winnipeg, Manitoba
CANADA R3C 0C4

AUDITOR'S REPORT

To the Legislative Assembly of Manitoba
To the Members of the Teachers' Retirement Allowances Plan

We have audited the statement of net assets available for benefits of The Teachers' Retirement Allowances Fund as at December 31, 2002 and the statement of changes in net assets available for benefits for the year then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the net assets available for benefits of the Fund as at December 31, 2002 and the changes in net assets available for benefits for the year then ended in accordance with Canadian generally accepted accounting principles.

Winnipeg, Manitoba
February 19, 2003

Jon W. Singleton, CA·CISA
Auditor General

STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS

as at December 31, 2002

($ Thousands)	2002	2001
ASSETS		
Investments, Note 3	$ 1,896,358	$ 1,920,736
Investment income receivable	8,880	9,204
Receivable for settlement of outstanding trades	7,472	152
Contributions and other receivables, Note 4	11,373	10,629
Cash	1,946	400
Fixed assets	240	302
Prepaid expense	7	7
TOTAL ASSETS	1,926,276	1,941,430
LIABILITIES		
Accrued liabilities	3,533	3,142
Money purchase accounts, Note 6	446	433
Employer trust accounts, Note 7		
Manitoba Teachers' Society	4,359	4,679
Manitoba Association of School Trustees	231	264
Province of Manitoba - Unfunded Pension Liability Fund Trust Account, Note 8	81,434	13,421
Provision for Fund's share of employees' pension benefits, Note 9	1,964	1,812
TOTAL LIABILITIES	91,967	23,751
NET ASSETS AVAILABLE FOR BENEFITS	$ 1,834,309	$ 1,917,679

On behalf of the Board

Chair

Board Member

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

for the year ended December 31, 2002

($ Thousands)	Account A		2002	2001
	Basic Benefits	Pension Adjustments	Total	Total
INCREASE IN ASSETS				
Contributions, Note 10	$ 134,560	$ 8,614	$ 143,174	$ 131,518
Net investment income, Note 13	69,525	11,165	80,690	72,507
TOTAL INCREASE IN ASSETS	204,085	19,779	223,864	204,025
DECREASE IN ASSETS				
Pensions paid	156,454	12,743	169,197	157,029
Current period change in fair value of investments, Note 14	124,767	–	124,767	31,666
Refunds	6,097	–	6,097	6,323
Transfers under reciprocal agreements	4,300	–	4,300	2,616
General administration, Note 17	2,873	–	2,873	3,011
TOTAL DECREASE IN ASSETS	294,491	12,743	307,234	200,645
INCREASE (DECREASE) IN NET ASSETS	(90,406)	7,036	(83,370)	3,380
BALANCE AT BEGINNING OF YEAR	1,793,771	123,908	1,917,679	1,914,299
NET ASSETS AVAILABLE FOR BENEFITS AT END OF YEAR	$ 1,703,365	$ 130,944	$ 1,834,309	$ 1,917,679

NOTES TO FINANCIAL STATEMENTS

for the year ended December 31, 2002

1. DESCRIPTION OF PLAN

The following description of The Teachers' Retirement Allowances Fund ("the Fund") plan is a summary only. For more complete information, reference should be made to The Teachers' Pensions Act ("the Act"), as amended.

(a) General

The Teachers' Retirement Allowances Fund Board ("the Board") was originally constituted under an Act passed at the 1925 session of the Legislature. The Board currently operates under the authority of The Teachers' Pensions Act. The Board is charged with responsibility for administering the Act and functions as trustee of a fund maintained to provide defined benefit pensions to public school teachers in Manitoba.

The Act provides for distinct and separate accounts in the Fund, known respectively as Account A and Account B. In Account A, the Fund records the net assets arising from teacher contributions and all payments of pensions, allowances and expenses. It also receives reimbursement for the Province's half of the pensions paid as a transfer from Account B. Account B records the receipt of the Province of Manitoba's payments for its share of pensions paid and certain other payments as described in the Act. Account B is reduced by transfers to Account A. The balance of Account B is reflected as receivable on the statement of net assets available for benefits (Note 4).

The Fund maintains separate trust accounts for the Manitoba Teachers' Society (MTS) and the Manitoba Association of School Trustees (MAST). Qualifying employees of these organizations are considered to be teachers for purposes of participating in the Fund. Employer obligations for benefits, in respect of these individuals, are funded through these separate trust accounts.

The Fund holds the Unfunded Pension Liability Fund monies in trust on behalf of the Province of Manitoba. The balance of the trust account is shown as a liability on the statement of net assets available for benefits (Note 8).

The Fund also keeps separate Money Purchase Accounts to hold other related funds on a trust basis.

(b) Funding

The Act requires all Manitoba public school teachers to contribute to the Fund on a basis related to their salary. Teachers contribute 5.7% on pensionable earnings up to the Canada Pension Plan's yearly maximum pensionable earnings (YMPE) and 7.3% on pensionable earnings in excess of the YMPE. In accordance with the Act, 83.5% of contributions are used to fund basic benefits and 16.5% of contributions are allocated to the Pension Adjustment Account for the purpose of indexing benefits.

In accordance with the Act, the Province of Manitoba contributes its share of pensions paid during the year and certain other statutory charges. The Province's liability for pension benefits, which is approximately $1.8 billion, is unfunded (Note 12).

1. DESCRIPTION OF PLAN *(cont'd)*

(c) Retirement pensions

An unreduced pension is available at age 60, or as early as age 55 where combined age and service equals 80. Any reduction in pension is offset by a bridging benefit. Members are eligible to retire at age 55 with 10 years of qualifying service, provided that two of the years are within a 10 year period ending after 1984. All members must commence receiving pension benefits no later than December 31 of the year age 69 is attained.

(d) Withdrawal refunds

Subject to lock-in provisions, refunds are available when an active member ceases employment.

(e) Death benefits

(i) Active members

Upon the death of an active member, a lump sum is payable to the estate or beneficiary based on pre-1985 contributions and interest and the commuted value of the post 1984 deferred pension. A spouse may elect to convert the lump sum benefit to a monthly annuity. Where the service is non-vested, the benefit payable is the contributions and interest accumulated in 1985 and later.

(ii) Retired members

Upon the death of a retired member, pension benefits continue to be paid to a beneficiary where a survivor option has been selected. Where the contributions and interest accumulated at the pension effective date is greater than the pension paid out to the date of death, the excess is payable to the estate or beneficiary.

(f) Other provisions

(i) Buy backs

Purchase of past service and reinstatement of refunded service is allowed, pursuant to the terms and conditions contained in the Act.

(ii) Marriage break-up

Where a marriage has broken up in 1984 or later, the spouse is entitled to one-half the value of the pension earned during the period of marriage pursuant to the terms and conditions contained in the Act.

(iii) Teaching while receiving a pension

A member, who retires and returns to work within 90 calendar days of retirement, is deemed not to have retired. The member must repay any pension benefits received and resume contributing to the Fund. A retired member can receive a pension while working, until the member reaches the 121st full day of service in one school year. When this happens, the member's pension is suspended and the member must resume contributing to the Fund.

1. DESCRIPTION OF PLAN *(cont'd)*

(g) Cost of living adjustments

Pensions are adjusted annually by the lesser of the change in the Canada Consumer Price Index or the amount actuarially available in the Pension Adjustment Account to fund one-half of the cost of living adjustment.

(h) Income taxes

The Teachers' Retirement Allowances Fund is a Registered Pension Plan as defined in the Income Tax Act and is not subject to income taxes. The Fund's registration number is 0273698.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of presentation

The financial statements of the Fund are prepared on a going concern basis and present the aggregate financial position of the Fund as a separate financial reporting entity. The statements are prepared to assist teachers and others in reviewing the activities during the year.

The Fund's financial statements are prepared in accordance with Canadian generally accepted accounting principles.

(b) Investments

Investments are stated at fair value on a trade date basis. Fair value is the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable willing parties who are under no compulsion to act.

Publicly traded investments are stated at year end market prices as listed on the appropriate exchange, or as provided by the Fund's custodian from independent outside sources.

High yield debt, according to the characteristics of the specific debt instruments, is stated at market value based on bid prices, discounted cash flows or held at cost where no market value is available.

Mortgages are stated at market value based on the present value of future cash flows.

Money market securities are recorded at cost which approximates market.

Pooled equity funds are valued based on the quoted market price of the underlying investments.

Private investments such as private debt and other equity are valued by the external manager or are held at cost where no previous valuation has been prepared.

Real estate market values are based on the most recently available external management valuations or appraisals of the underlying properties or held at cost where no previous valuation has been prepared.

(c) Foreign currency translation

The market value of investments and cash balances denominated in foreign currencies are translated into Canadian dollars at the rates in effect at year end and the resulting change is included in the current period change in fair value of investments.

2. SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

Transactions denominated in foreign currencies are translated into Canadian dollars at the rates of exchange prevailing on the dates of the transactions. Hedged foreign currency transactions are translated at rates of exchange established by the terms of the forward exchange contracts. The foreign exchange on revenue and expense transactions is included in investment income.

(d) Forward contracts

A forward is a contractual obligation either to buy or sell a specified amount of foreign currency at a predetermined future date and exchange rate. Forward contracts are valued at the estimated amounts that the Fund would receive or pay to terminate the contracts at the reporting date. Gains or losses on forward contracts are recognized with the current period change in fair value of investments.

(e) Provision for Fund's share of employees' pension benefits

Employees of The Teachers' Retirement Allowances Fund are pensionable under The Civil Service Superannuation Act. The Teachers' Retirement Allowances Fund accrues a liability for the employer share of the employees' pension benefits, including future cost of living adjustments, based on an actuarial report.

(f) Fixed assets

Computer and office equipment acquisitions are capitalized and amortized on a straight line basis over five years.

3. INVESTMENTS, AT FAIR VALUE

($ Thousands)	2002	2001
Fixed Income		
Bonds and debentures	$ 629,929	$ 614,447
Mortgages	111,400	95,169
Money market securities	66,706	10,095
Equities		
Canadian	518,115	576,408
Non-North American	201,214	179,175
United States	194,535	263,607
Other	17,696	25,390
Real estate	156,763	156,445
	$ 1,896,358	$ 1,920,736

4. CONTRIBUTIONS AND OTHER RECEIVABLES

($ Thousands)	2002	2001
Account B	$ 8,310	$ 7,046
Teacher contributions	3,061	3,583
Other receivables	2	–
	$ 11,373	$ 10,629

5. RISK MANAGEMENT

The Fund follows a balanced fund asset mix strategy to earn the best possible investment return at an acceptable level of risk.

(a) Interest rate and market risk

Interest rate risk refers to the adverse consequences of interest rate changes on the Fund's cash flows, financial position and income. This risk arises from differences in the timing and amount of cash flows related to the Fund's assets and liabilities.

The value of the Fund's investments is affected by changes in nominal short term interest rates and their impact on equity markets. Assuming a parallel change in long and short term yields, a 1% increase in interest rates would have the effect of decreasing the value of fixed income investments by 5%.

Pension liabilities are exposed to the long term expectation of real rate of return on the investments as well as expectations of inflation and salary escalation. Holding all other actuarial assumptions constant, a 1% decrease in the assumed long term rate of return would result in a 13% increase in the pension liabilities for basic benefits.

The value of certain investments is also affected by the existence of limited secondary markets.

To manage interest rate and market risks, the assets of the Fund are invested to ensure a prudent level of diversification by type of security, geographic location and by industry.

(b) Credit risk

Credit risk arises from the potential for an investee to fail or for a counterparty to default on its contractual obligations to the Fund.

The Fund limits credit risk by dealing with counterparties that are considered to be of high quality, by obtaining collateral where appropriate, through investment diversification and by setting and monitoring compliance with portfolio guidelines.

(c) Foreign currency risk

Foreign currency exposure results where investments are denominated in a foreign currency.

5. RISK MANAGEMENT *(cont'd)*

The Fund, through its investment managers, may employ hedging strategies to mitigate the foreign currency risk in the portfolio. At December 31, 2002, the Fund held $38,499,000 (2001 - $12,370,000) in forward contracts with an unrealized loss of $62,600 (2001 - $217,000 unrealized loss).

6. MONEY PURCHASE ACCOUNTS

Separate money purchase accounts have been established for persons transferring amounts to the Fund in accordance with the Act. These accounts are maintained separately from the Fund's other activities. Prior to April 2002, the individual accounts earned investment income based on short term lending rates, less an administration fee of 1%. Effective April 2002, the accounts receive the three year average fund earning rate which incorporates an administration fee. On the written direction of the individual, the accumulated amount of the individual's account is transferred out to a Locked-in Retirement Account or into the Fund's Account A for initiation of a lifetime annuity.

($ Thousands)	2002	2001
Balance at beginning of year	$ 433	$ 406
Deposits	–	13
Investment income	27	18
Transfer to Locked-in Retirement Account	(13)	–
Administration fee	(1)	(4)
Balance at end of year	$ 446	$ 433

7. EMPLOYER TRUST ACCOUNTS

The Fund maintains separate trust accounts for the employer obligation for pension benefits in respect of MAST and MTS employees who are members of the Fund. The trust accounts receive the employer contributions and investment income and are charged with the employer share of pensions paid.

(a) Manitoba Teachers' Society Trust Account

($ Thousands)	2002	2001
Balance at beginning of year	$ 4,679	$ 4,789
Contributions	–	–
Investment income	(104)	101
Pension payments	(216)	(211)
Balance at end of year	$ 4,359	$ 4,679

7. EMPLOYER TRUST ACCOUNTS *(cont'd)*

(b) Manitoba Association of School Trustees Trust Account

($ Thousands)	2002	2001
Balance at beginning of year	$ 264	$ 290
Contributions	9	–
Investment income	(6)	6
Pension payments	(36)	(32)
Balance at end of year	$ 231	$ 264

8. PROVINCE OF MANITOBA – UNFUNDED PENSION LIABILITY FUND TRUST ACCOUNT

The Unfunded Pension Liability Fund monies are held in trust for and on behalf of the Province. These monies are not Plan assets and are accounted for separately by the Fund in the Unfunded Pension Liability Fund Trust Account. Under authority of sub-section 41(16) of The Teachers' Pensions Act, the Board entered into an agreement to invest these monies on behalf of the Province. According to the terms of the agreement, these monies earn the rate of return of the Fund. The Fund is paid a fee for its investment management services. This fee is deducted from investment management expenses in Note 17.

($ Thousands)	2002	2001
Balance at beginning of year	$ 13,421	$ –
Deposits	69,422	12,815
Investment income	(1,312)	610
Management fee	(97)	(4)
Balance at end of year	$ 81,434	$ 13,421

9. PROVISION FOR FUND'S SHARE OF EMPLOYEES' PENSION BENEFITS

($ Thousands)	2002	2001
Balance at beginning of year	$ 1,812	$ 1,662
Benefits accrued	95	90
Interest accrued on benefits	131	125
Benefits paid	(74)	(65)
Balance at end of year	$ 1,964	$ 1,812

The valuation of the pension obligations as at December 31, 2001 was conducted by Ellement and Ellement Ltd., consulting actuaries. The key actuarial assumptions were a rate of return of 6.75% (1998 - 7%), 2.75% inflation (1998 - 3%), salary rate increases of 4.5% (1998 - 4.5%) and post retirement indexing at 2/3 of the inflation rate. The entry age normal actuarial cost method was used and the liabilities have been extrapolated to December 31, 2002 using a formula provided by the actuary.

10. CONTRIBUTIONS

($ Thousands)	2002	2001
Teachers	$ 52,568	$ 47,518
Transfers from Account B		
Share of benefits charged	88,154	81,490
Other statutory charges	1,659	1,660
Transfers under reciprocal agreements	793	850
	$ 143,174	$ 131,518

11. ACTUARIAL VALUATIONS

The Teachers' Pensions Act, sub-section 45(4), requires a actuarial valuation of the Fund at least every three years. The most recent actuarial valuation of Account A (excluding the Pension Adjustment Account) and Account B was completed as at January 1, 2001 by Aon Consulting Inc., consulting actuaries. The previous actuarial valuations of Accounts A and B occurred at January 1, 1998. The unit credit actuarial cost method was used for each valuation.

The assumptions used in determining the actuarial value of benefits accrued for service to date for Account A and Account B were developed by reference to expected long term market conditions. The significant long term actuarial assumptions used in the valuations were:

	January 1, 2001		January 1, 1998	
			1998 to 2000	after 2000
Annual rate of return				
(a) Inflation component		3.00%	2.00%	3.25%
(b) Real rate of return		4.00%	5.00%	3.75%
		7.00%	7.00%	7.00%
Annual salary escalation rates				
(a) General increases:				
(i) inflation component		3.00%	2.00%	3.25%
	2001 to 2010	after 2010	1998 to 2010	after 2010
(ii) real salary gain component	0.50%	0.75%	0.00%	0.75%

(b) The rates used for service, merit and promotional increases are related to years of service and range from 0.50% to 5.75%. In the 1998 valuation, these increases were assumed to be linked to the age of active teachers and ranged from a low of 0.25% to a high of 4.95%.

11. ACTUARIAL VALUATIONS *(cont'd)*

The actuarial valuation of the Fund (excluding the Pension Adjustment Account) as at January 1, 2001 disclosed a surplus of $102,927,400. As the Account B assets and liabilities are equal, the Fund surplus is comparable to the Account A surplus which was $43,869,000 as at January 1, 1998.

The actuarial present value of the Province's accrued pension benefits liability (Account B), including previously granted cost of living adjustments, was calculated at $1,631,073,300 for service to January 1, 2001 (1998 - $1,352,197,400).

The Pension Adjustment Account is actuarially valued each year to determine the amount available to fund one-half of any cost of living increase. The December 31, 2001 actuarial report, prepared by Aon Consulting Inc., disclosed a surplus of $9,993,375 (2000 - $14,633,868 surplus). Effective July 1, 2002, the Board approved the payment of a 0.70% pension adjustment.

12. ACCRUED PENSION BENEFITS

(a) Basic benefits

The present value of accrued pension benefits, for Accounts A and B (excluding Pension adjustments which are shown in (b) below), for service to January 1, 2001, was determined from the actuarial valuation referred to in Note 11. The present value of accrued pension benefits has been extrapolated from January 1, 2001 to December 31, 2002, using a formula developed by the actuary.

($ Millions)	Account A	Account B	**2002 Total**	2001 Total
Estimated actuarial present value of accrued pension benefits for service to beginning of year	$ 1,664	$ 1,620	$ 3,284	$ 3,105
Interest accrued on benefits	116	113	**229**	216
Benefits accrued	58	55	**113**	103
Benefits paid	(78)	(76)	**(154)**	(140)
Net increase in accrued pension benefits	96	92	**188**	179
Estimated actuarial present value of accrued pension benefits for service to end of year	$ 1,760	$ 1,712	$ 3,472	$ 3,284

The estimated actuarial present value of accrued pension benefits in Account A is the Fund's obligation, while Account B represents the Province's obligation. The Account B liability for basic benefits is unfunded.

12. ACCRUED PENSION BENEFITS *(cont'd)*

(b) Pension adjustments (cost of living)

The present value of accrued pension adjustments has been extrapolated to December 31, 2002, using a formula developed by the actuary.

($ Millions)	Pension Adjustment Account	Account B Cost of Living	**2002 Total**	2001 Total
Estimated actuarial present value of accrued pension adjustments at beginning of year, as previously reported	$ 113	$ 106	**$ 219**	$ 203
Change in assumptions	1	–	**1**	–
Beginning of year, as restated	114	106	**220**	203
Interest accrued on benefits	7	7	**14**	14
Benefits accrued	6	6	**12**	28
Benefits paid	(13)	(13)	**(26)**	(26)
Net increase in accrued pension benefits	–	–	**–**	16
Estimated actuarial present value of accrued pension adjustments at end of year	$ 114	$ 106	**$ 220**	$ 219

The actuarial assumption used in the 2001 report for the rate of interest expected to be earned on the pension adjustment account was 6.00% (2000 - 6.00%). The rate of interest used to determine the liability for the cost of living benefits of Account B was 7.00%. The Account B liability for cost of living benefits is unfunded.

13. INVESTMENT INCOME

($ Thousands)	2002	2001
Fixed Income		
Bonds and debentures	$ 42,206	$ 38,265
Mortgages	7,616	7,165
Money market securities	1,062	1,542
Equities		
Canadian	9,420	11,540
Non-North American	4,177	4,278
United States	3,746	3,421
Other	2,331	148
Real estate	11,800	10,151
Gross investment income	82,358	76,510
Less: Transfer to money purchase accounts, Note 6	(27)	(18)
Transfer for employer trust accounts, Note 7	110	(107)
Transfer for Province of Manitoba - Unfunded Pension Liability Fund Trust Account, Note 8	1,312	(610)
Transfer for Fund's share of employees' pension benefits, Note 9	(131)	(125)
Net investment management fees, Note 17	(2,932)	(3,143)
Net investment income	$ 80,690	$ 72,507

14. CURRENT PERIOD CHANGE IN FAIR VALUE OF INVESTMENTS

($ Thousands)	2002	2001
Net realized gain (loss) on the sale of investments	$ (72,711)	$ 4,733
Net unrealized market depreciation	(52,056)	(36,399)
Current period change in fair value of investments	$ (124,767)	$ (31,666)

15. RELATED PARTY TRANSACTIONS

(a) Investments with the Province of Manitoba

($ Thousands)	Bonds	Short Term	2002 Total	2001 Total
Balance at beginning of year	$ 9,009	$ –	$ 9,009	$ 15,420
Purchases	7,844	157,236	165,080	109,094
Sales	(5,416)	(157,236)	(162,652)	(114,986)
Current period change in fair value	387	–	387	(519)
Balance at end of year	$ 11,824	$ –	$ 11,824	$ 9,009
Interest income	$ 549	$ 171	$ 720	$ 944

(b) Investment management services

The Fund owns 10.5% of Greystone Capital Management Inc., whose subsidiary Greystone Managed Investments Inc. provides investment management services to the Fund on a fee for service basis. Investment management fee expense for the year was $2,459,296 (2001 - $2,598,299).

16. COMMITMENTS

As at December 31, 2002, The Teachers' Retirement Allowances Fund had outstanding investment commitments totalling $38.0 million (2001 - $6.1 million).

17. ADMINISTRATIVE EXPENSES

($ Thousands)	2002	2001
Salaries and benefits	$ 1,947	$ 1,971
Office and administration	444	463
Actuarial fees	75	107
Custodial and banking	189	193
Communication and travel	106	135
Professional fees	50	47
Board expenses	62	95
Sub-total	2,873	3,011
Net investment management fees (Note 13)	2,932	3,143
Total	$ 5,805	$ 6,154

18. COMPARATIVE FIGURES

Comparative figures have been reclassified, where necessary, to conform to the 2002 presentation.

SCHEDULE OF INVESTMENTS

as at December 31, 2002

BONDS AND DEBENTURES

	Interest Rate (%)	Maturity Date	Fair Value ($ Thousands)
FEDERAL			
Canada	3.500	1-Jun-2004	$ 87,954
Canada	5.750	1-Sep-2006	86,153
Canada	4.500	1-Sep-2007	25,845
Canada	5.250	1-Jun-2012	22,840
Canada	5.250	1-Jun-2013	20,979
Canada	5.750	1-Jun-2033	61,998
			305,769
PROVINCIAL			
British Columbia	6.375	23-Aug-2010	5,109
British Columbia	5.750	9-Jan-2012	2,168
British Columbia	5.700	18-Jun-2029	2,864
British Columbia	6.350	18-Jun-2031	5,992
Hydro Quebec	FLTG	1-Nov-2006	3,522
Manitoba	5.250	3-Dec-2012	7,976
Manitoba	5.500	15-Nov-2018	3,848
New Brunswick	8.750	19-Apr-2005	1,604
New Brunswick	5.875	6-Dec-2012	2,894
New Brunswick	6.000	27-Dec-2017	3,823
Newfoundland	6.550	17-Oct-2030	4,346
Nova Scotia	5.500	15-Mar-2006	4,141
Nova Scotia	6.400	1-Sep-2010	8,167
Ontario	FLTG	1-Feb-2006	3,329
Ontario	7.750	24-Jul-2006	7,083
Ontario	6.100	2-Dec-2011	6,041
Ontario	6.500	8-Mar-2029	5,787
Ontario	6.200	2-Jun-2031	5,854
Ontrea Inc.	5.700	31-Oct-2011	1,785
Quebec Finance Corporation	5.750	1-Dec-2008	2,174
Quebec Finance Corporation	6.250	1-Dec-2015	4,309
Quebec	6.500	1-Dec-2005	5,444
Quebec	6.250	1-Dec-2010	2,981
Quebec	6.000	1-Oct-2012	8,722
Quebec	6.250	1-Jun-2032	4,327
Saskatchewan	5.500	2-Jun-2008	2,978
Saskatchewan	5.250	3-Dec-2012	4,047
Saskatchewan	5.750	5-Mar-2029	2,326
Saskatchewan	6.400	5-Sep-2031	1,789
			125,430
CORPORATE			
Alliance Pipeline	7.181	30-Jun-2023	3,622
Associates Capital Corporation	5.700	17-Aug-2006	2,280
Bank of Nova Scotia	FLTG	22-Jul-2013	$ 5,124
BCE Inc.	6.750	30-Oct-2007	2,109
Borealis Infrastructure Trust	6.270	3-May-2011	3,453
Canadian Tire Corp. Ltd.	5.700	9-Jun-2008	3,033
Canadian Tire Receivables Trust	4.820	20-Dec-2007	2,143
Citibank Canada	6.550	28-Jul-2005	3,067
Column Canada Issuer Corp.	5.943	12-Feb-2012	2,126
Falcon Trust	5.151	15-Jan-2011	2,001
GE Capital Canada Funding Co.	FLTG	5-Jan-2005	2,760
GE Capital Canada Funding Co.	5.300	24-Jul-2007	5,571
Genesis Trust	6.869	15-Feb-2005	6,998
Gloucester Credit Card Trust	5.693	15-Mar-2006	4,015
Gloucester Credit Card Trust	5.590	15-Jun-2007	2,990
Great-West Life Capital Trust	5.995	31-Dec-2012	2,743
Greater Toronto Airports Authority	5.950	3-Dec-2007	2,528
Greater Toronto Airports Authority	6.250	30-Jan-2012	3,165
Greater Toronto Airports Authority	7.100	4-Jun-2031	1,924
H407 International Inc.	6.400	16-Feb-2004	2,580
H407 International Inc.	9.000	15-Aug-2007	4,323
H407 International Inc.	6.900	17-Dec-2007	2,813
Hollis Receivables Term Trust	6.205	21-Sep-2004	3,871
Hollis Receivables Term Trust	5.672	26-Apr-2006	2,527
Investors Group Inc.	6.750	9-May-2011	3,114
Loblaw Companies Ltd.	6.000	2-Jun-2008	1,489
Manulife Financial Capital Trust	6.700	30-Jun-2012	3,230
Merrill Lynch Canada Finance Co.	5.350	19-Nov-2007	2,737
Merrill Lynch Financial Assets	6.790	15-Apr-2011	3,000
Merrill Lynch Financial Assets	5.660	12-Jan-2011	2,951
Merrill Lynch Mortgage Loans	6.750	15-Nov-2032	2,886
NAV Canada	6.600	1-Dec-2006	4,359

SCHEDULE OF INVESTMENTS *(cont'd)*

	Interest Rate (%)	Maturity Date	Fair Value ($ Thousands)
CORPORATE *(cont'd)*			
Nova Gas Transmission Ltd.	6.000	31-Jan-2008	$ 2,404
RBC Capital Trust	7.288	30-Jun-2010	3,167
Royal Bank of Canada	6.750	4-Jun-2012	3,531
Scotiabank Capital Trust	6.626	30-Jun-2012	2,696
Sun Life Assurance Co. of Canada	6.150	30-Jun-2022	3,372
Swift Trust	7.400	7-Dec-2008	4,324
Toronto-Dominion Bank	6.550	31-Jul-2012	3,353
Wells Fargo Financial Canada Corp.	5.500	15-Jun-2007	2,244
			126,623
HIGH YIELD DEBT			
Baytex Energy Ltd.	10.500	15-Feb-2011	1,435
BC Gas Inc.	8.000	19-Apr-2010	2,880
Bell Actimedia	12.500	29-Nov-2012	2,750
Bell Canada International Ltd.	11.000	29-Sep-2004	1,515
Bowater Inc.	10.850	30-Nov-2014	2,043
Corus Entertainment Inc.	8.750	1-Mar-2012	1,673
Dryden High Yield	-	9-Nov-2013	4,502
Falconbridge Limited	8.500	8-Dec-2008	1,059
Franklin II Ltd.	-	28-Aug-2013	4,739
Gloucester Credit Card Trust	7.851	15-Mar-2006	2,129
Harbourview IV	-	25-Oct-2013	3,175
Intrawest Corp.	10.500	1-Feb-2010	2,488
Marsulex Inc.	9.625	1-Jul-2008	1,043
Millar Western	9.875	15-May-2008	2,004
Norampac Inc.	9.375	1-Feb-2008	2,087
Nortel Networks Corp.	6.125	15-Feb-2006	1,058
Nova Chemicals Corp.	7.850	30-Aug-2010	1,372
Quebecor Media Inc.	11.125	15-Jul-2011	2,183
Rogers Cablesystems Ltd.	9.650	15-Jan-2014	1,953
Rogers Communications Inc.	8.750	15-Jul-2007	1,860
Scott Paper Ltd.	10.000	6-Jun-2007	2,072
Sherritt Power Corp.	12.125	31-Mar-2007	$ 1,444
St. Joseph Printing Ltd.	11.500	21-Dec-2004	1,504
Stelco Inc.	10.400	30-Nov-2009	1,372
TCW II Ltd.	-	2-Dec-2013	4,171
Telus Corp.	7.500	1-Jun-2007	3,295
Trilon Financial Corp.	8.350	1-Dec-2006	1,583
Videon Cablesystems Inc.	8.150	26-Apr-2010	1,427
			60,816
Investments under $1 Million			11,291
Total Bonds and Debentures			**$ 629,929**

MORTGAGES

	Location	Fair Value ($ Thousands)
Insured	British Columbia	$ 665
	Manitoba	5,151
	Saskatchewan	84
		5,900
Conventional	Alberta	43,151
	British Columbia	12,444
	Manitoba	14,636
	Ontario	35,269
		105,500
Total Mortgages		**$ 111,400**

MONEY MARKET SECURITIES

	Fair Value ($ Thousands)
Federal and Provincial Governments	$ 38,902
Banks and Trust Companies	27,804
Total Money Market Securities	**$ 66,706**

SCHEDULE OF INVESTMENTS *(cont'd)*

CANADIAN EQUITIES

	Fair Value ($ Thousands)
AGF Management Ltd.	$ 10,602
ATI Technologies Inc.	5,783
Bank of Montreal	21,706
Bank of Nova Scotia	41,869
Barrick Gold Corp.	13,613
Cameco Corp.	14,716
Canadian National Railway	25,041
Canadian Natural Resources	15,046
CGI Group Inc.	4,644
Cott Corp.	5,942
Decoma Intl.	2,031
Domtar Inc.	17,550
Encana Corp.	18,410
Finning International Inc.	16,513
Forzani Group	3,982
Ipsco Inc.	6,517
Loblaw Co.	15,970
Magna Intl. Inc.	25,237
Manulife Financial Corp.	19,389
Masonite International Corp.	12,559
Meridian Gold Inc.	6,269
Molson Inc.	13,547
Open Text Co.	4,751
Penn West Petroleum	12,669
Petro-Canada	18,639
Power Corp. of Canada	23,340
Power Financial Corp.	17,644
Quebecor World Inc.	13,066
Royal Bank of Canada	40,846
Royal Group Technologies	4,876
Saputo Inc.	5,343
Shoppers Drug Mart Corp.	13,175
SNC-Lavalin Group Inc.	10,839
Talisman Energy Inc.	11,345
Transalta Corp.	5,201
Transcanada Pipelines	19,241
	517,911
Investments under $1 million	204
Total Canadian Equities	**$ 518,115**

NON-NORTH AMERICAN EQUITIES

	Fair Value ($ Thousands)
Greystone Non-North American Pooled Fund	$ 105,799
Templeton Segregated Fund	95,402
	201,201
Investments under $1 million	13
Total Non-North American Equities	**$ 201,214**

U.S. EQUITIES

	Fair Value ($ Thousands)
Greystone Large Cap Growth Fund	$ 130,669
Mellon CF Large Cap Value Stock Index Fund	63,866
Total U.S. Equities	**$ 194,535**

OTHER EQUITIES

	Fair Value ($ Thousands)
Greystone Capital Management Inc.	$ 3,440
MDS Capital Corp.	5,799
MDS Health Ventures Pension Corp.	1,413
MDS Health Ventures Inc.	1,174
Neuroscience Partners	1,545
Torquest Partners Value Fund	1,848
Wembley Resources	1,026
	16,245
Investments under $1 million	1,451
Total Other Equities	**$ 17,696**

REAL ESTATE

	Fair Value ($ Thousands)
Airways Equities Inc.	$ 6,901
Aset Properties Inc.	15,797
Bramalea City Centre	11,738
Commerce Valley Equities Inc.	2,772
Enterprise Street Holdings Inc.	3,632
Explorer Drive Equities Inc.	1,476
Eskimo Equities Inc.	4,107
ICORP Properties Ltd.	7,850
Lougheed Equities Inc.	7,716
Pensionfund Realty Limited	75,327
Rutherford Properties Limited	2,140
Saskpen Properties Ltd.	1,478
Seven Oaks Equities Inc.	2,972
Summerlea Clark Road Inc.	10,350
Westside Equities Inc.	1,265
	155,521
Investments under $1 million	1,242
Total Real Estate	**$ 156,763**

CORPORATE DIRECTORY

BOARD OF DIRECTORS

Alfred Black, *Chair*
Pat Isaak, *Vice Chair*
Glen Anderson
Bruce Chegus
Bob Malazdrewich
Doug McGiffin
Henry Shyka

INVESTMENT COMMITTEE

Alfred Black, *Chair*
Pat Gannon, *Deputy Minister of Finance*
Henry Shyka, *Teacher Member*
Glen Anderson, *Teacher Observer*

INVESTMENT MANAGEMENT

Greystone Managed Investments Inc.
Mellon Capital Management
Franklin Templeton Investments
Imperial Capital Corporation
TorQuest Partners Inc.
Frontier Capital Partners
Goldman Sachs Asset Management

PERFORMANCE MEASUREMENT

Towers Perrin
Cost Effective Measurement Inc.

CUSTODIAN

CIBC Mellon Global Securities Services

MANAGEMENT

Tom Ulrich
President and Chief Executive Officer

Dewar McKinnon
Vice President, Finance and Operations

Brenda Venuto
Vice President, Benefits Administration and Member Services

Les Brown
Vice President, Information Services

Kristi Baily
Associate Vice President, Communications

ACTUARY

Aon Consulting Inc.

AUDITOR

Office of the Auditor General of Manitoba

LEGAL COUNSEL

Michael Werier, D'Arcy & Deacon

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TEACHERS' RETIREMENT ALLOWANCES FUND

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